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Agence de surveillance du secteur pétrolier Canada

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CANADIAN PETROLEUM MONITORING REPORT

A survey of the 1981 activities and financial performance of the petroleum industry was issued today by Harold Renouf, Chairman of the Petroleum Monitoring Agency (PMA). The report is based on data provided by the 101 largest oil and gas companies in Canada and covers a number of subjects including profitability, capital expenditures, international flow of funds, revenue sharing, and ownership and control trends.

"The report is designed to provide the people of Canada with a factual overview of the activities and financial performance of the petroleum industry in 1981," said Mr. Renouf.

The PMA Chairman noted that the after-tax profits (net income) on total operations of the petroleum industry declined by $1.6 billion, or by 34 per cent, to about $3 billion. Nearly $1.3 billion of this decline was due to a 44 per cent decrease in profits from upstream operations (exploration, development and production). Factors contributing to the decreased upstream profits were higher operating costs, increased interest charges and the Petroleum and Gas Revenue Tax (PGRT).

Profits on downstream operations (refining, marketing, and petrochemicals) declined by 6 per cent to $1.4 billion. Mr. Renouf remarked that declining demand for petroleum products, particularly in the second half of 1981, led to pressures on profit margins as companies attempted to maintain their market shares. Excluding inventory profits due to changes in the Petroleum Compensation Charge (PCC), downstream net income in 1981 would have declined by 18 per cent as compared to the actual decrease of 6 per cent.

The profit performance of the petroleum industry in 1981 contrasted to the steady growth of the 1970s. In 1972, the petroleum industry earned $18 in net income for every $100 earned by the aggregate of all other non-financial industries in Canada. By 1980, the comparable figure for the petroleum industry had risen to $43. In 1981, the equivalent figure was $34 – somewhat less than the ratio for the year 1979.

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The report contains an analysis of the relative ability of the industry to cover its total interest charges from internally-generated funds. Interest charges for Canadian-controlled companies accounted for about 38 per cent of their internal cash flow. In marked contrast, the comparable figure for foreign-controlled firms was 7 per cent.

Mr. Renouf said that capital expenditures by the petroleum industry increased by 21 per cent to reach $11.6 billion. Upstream capital expenditures accounted for $6.7 billion of this total, a decrease of 3 per cent. This decrease was primarily due to reduced exploratory activity on provincial lands, although exploration spending on Canada Lands increased by 67 per cent.

The PMA Chairman reported that Petroleum Incentives Program (PIP) grants are estimated to total $670 million for reporting companies in 1981, of which $470 million will be funded by the federal government and $200 million by the Government of Alberta. The Government contribution to industry cash sources of $670 million was offset by $924 million in PGRT for a net deficit of $254 million. The net deficit was distributed between a $234 million surplus of PIP over PGRT for Canadian-controlled companies and a $488 million deficit for foreign-controlled firms.

The estimated level of foreign ownership and control of the industry declined by 6.7 and 6.5 percentage points to 67.2 per cent and 74.8 per cent respectively. Mr. Renouf noted that the magnitude of these declines was dramatic compared to those realized over the decade of the 1970s. Takeover activity was the most important single factor accounting for the decrease in foreign ownership and control in 1981.

- 30 -

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BACKGROUNDER
1981 PETROLEUM MONITORING SURVEY

The 1981 Petroleum Monitoring Survey is based on information provided by 101 petroleum companies reporting to the Petroleum Monitoring Agency (PMA). These companies accounted for more than 95 per cent of petroleum industry revenues on total operations in 1981.

Canadian production of petroleum and natural gas decreased by eight and three per cent respectively compared to 1980 levels. Higher wellhead crude oil prices and higher prices for natural gas offset the impact of lower production levels so that industry upstream revenues advanced by three per cent to $16.5 billion in 1981. Petroleum industry revenues from total operations rose by 21 per cent in 1980 to reach $51 billion.

NET INCOME

The after-tax profits (net income) of the petroleum industry declined by $1.6 billion, or by 34 per cent to $3.1 billion. Nearly $1.3 billion of this reduction was due to the 44 per cent decrease in profits in the upstream sector (exploration, development, and production). The major factors contributing to the decline in upstream profits were higher operating costs, increased interest charges and the Petroleum and Gas Revenue Tax (PGRT).

TOTAL OPERATIONS

	1980	1981	Change
	($ millions)		(%)
TOTAL REVENUES	42353	51248	21
TOTAL DEDUCTIONS	34086	44723	31
INCOME BEFORE INCOME TAXES	8267	6525	(21)
less Current Income Taxes	2075	2186	5
Deferred Taxes	1512	1227	(19)
NET INCOME	4681	3112	(34)

NOTE: See Table 1.2 (page 10) in report for details.

Net income from downstream operations (refining, marketing, and petrochemicals) declined by six per cent to \$1.4 billion, with 58 per cent of the year's net income being recorded in the first half of 1981. After-tax profits on downstream operations in the second half of the year were 29 per cent lower than those in the corresponding period of 1980. This weak performance was caused by declining demand for petroleum products and increased competitive pressures as companies attempted to maintain their market shares.

Changes in the Petroleum Compensation Charge (PCC) had an important impact on downstream net income in 1981. Excluding inventory profits due to changes in the PCC, downstream net income in 1981 would have declined by 18 per cent as compared to the actual decrease of six per cent.

The profit performance of the petroleum industry in 1981 was in marked contrast to the steady growth of the 1970s. Statistics Canada data indicate that the petroleum industry earned \$18 in net income for every \$100 earned by the aggregate of all other non-financial industries (excluding petroleum) in 1972. The comparable figures for 1979 and 1980 were \$37 and \$43. In 1981, the petroleum industry earned \$34 for every \$100 earned by other non-financial industries – somewhat less than the equivalent ratio for 1979.

NET INCOME

VARIOUS INDUSTRIES

	1972	1979	1980	1981
		(\$ millions)		
(1) ALL NON-FINANCIAL INDUSTRIES (excluding petroleum)	4452	10879	11585	9480
(2) Petroleum	804	4060	5005	3247
(3) ALL NON-FINANCIAL INDUSTRIES (including petroleum)	5256	14939	16590	12727
(4) Line 2 as a per cent of 3	15	27	30	26
(5) Line 2 as a per cent of 1	18	37	43	34

NOTE: See Table 1.4 (page 13) in report for details.

SOURCES OF FUNDS

Total funds available to the industry in 1981 were $22.4 billion, an increase of 46 per cent over the previous year. Cash flow from operations declined by 15 per cent to $8.1 billion, but a rise of 146 per cent in external sources (primarily from new long-term debt) resulted in the overall increase in available funds. External sources of funds accounted for $14.3 billion, or 64 per cent, of the industry's total cash flow in 1981, compared to 38 per cent in 1980.

The report contains an analysis of the relative ability of the industry to cover its total interest charges from internally-generated funds. The analysis indicates that interest charges for Canadian-controlled companies accounted for about 38 per cent of their 1981 internal cash flow. In marked contrast, the comparable figure for foreign-controlled firms was seven per cent.

An important new source of funds for the industry in 1981 was government Petroleum Incentives Program (PIP) grants. PMA reporting companies estimated their entitlement to PIP grants to total $670 million in 1981, of which $470 million will be funded by the federal government, and $200 million by the Government of Alberta. Of the $670 million total, $563 million, or 84 per cent of the PIP grants accrued to Canadian-controlled companies.

ESTIMATED PIP GRANTS
PMA REPORTING POPULATION

Expenditure	Alberta	Other Provinces	Canada Lands	Total
		($ millions)		
Exploration	146	18	445	609
Development and Production	54	7	-	61
TOTAL	200	25	445	670
Canadian Controlled	200	25	338	563
Foreign Controlled	-	-	107	107

NOTE: See Table 2.4 (page 26) in report for details.

On an overall industry basis, governments' contribution to industry cash sources of \$670 million of PIP grants was offset by \$924 million in PGRT for a net deficit of \$254 million. This net deficit was distributed between a \$234 million surplus of PIP over PGRT for Canadian-controlled companies and a \$488 million deficit for foreign-controlled firms.

NET IMPACT OF PIP AND PGRT
ON UPSTREAM SOURCES OF FUNDS

	PIP	PGRT	IMPACT ON SOURCES OF FUNDS
		(\$ millions)	
TOTAL INDUSTRY	670	924	(254)
Canadian Controlled	563	329	234
Foreign Controlled	107	595	(488)

NOTE: See Table 2.5 (page 27) of report for details.

CAPITAL EXPENDITURES

Capital expenditures by the petroleum industry increased by 21 per cent to reach \$11.6 billion. Within this total, expenditures in Canada amounted to \$9.8 billion, up 17 per cent over the 1980 level. Upstream capital expenditures decreased three per cent to \$6.7 billion, primarily as the result of reduced exploratory activity on provincial lands, although exploration expenditures on Canada Lands increased by 67 per cent. Capital expenditures abroad rose by 50 per cent to reach \$1.7 billion.

CAPITAL EXPENDITURES - SUMMARY

	1980	1981	Change
	($ millions)		(%)
Exploration	4135	3766	(9)
Other Upstream	2788	2940	5
TOTAL UPSTREAM	6923	6706	(3)
Other Canadian	1525	3138	106
TOTAL CANADIAN EXPENDITURES	8448	9844	17
Capital Expenditures Abroad	1151	1728	50
TOTAL CAPITAL EXPENDITURES	9598	11571	21

NOTE: See Table 3.2 (page 29) in report for details.

REVENUE SHARES

Estimates of revenue shares are calculated on the basis of the methodology used by the federal government and the governments of the producing provinces in the Energy Pricing and Taxation Agreements (EPTA) signed in the fall of 1981. On this basis, estimated 1981 revenue shares are: industry, 50.4 per cent; provincial, 30.4 per cent; and federal, 19.2 per cent. Decreases of 4.5 and 4.0 percentage points in the provincial and industrial shares, respectively, from 1980 to 1981 were offset by an 8.5 percentage point increase in the federal share. Revenues from the PGRT and the Natural Gas and Gas Liquids Tax (NGGLT) were the main contributors to the increased federal share, while lower revenues from land payments were the main reason for the decreased provincial share in 1981.

This method considers operating costs to be a part of industry's share of total revenues. Excluding operating costs, the estimated revenue shares in 1981 are: industry, 39.5 per cent; provincial, 37.1 per cent; and federal, 23.4 per cent. These estimates compare very closely to those in the federal government's NEP Update of May 1982, where operating costs were excluded from the calculation of the industry share.

RESEARCH AND DEVELOPMENT

Research and Development (R&D) expenditures undertaken by PMA companies using their own equipment and laboratories totalled $332 million in 1981, an increase of 64 per cent. In addition, R&D expenditures carried out under contract for the reporting companies almost doubled to $117 million. R&D expenditures related to in-situ production techniques ($122 million), and oil and gas exploration and production ($118 million), were the two most significant components of outlays incurred directly by reporting companies.

OWNERSHIP AND CONTROL

The estimated level of foreign ownership of the oil and gas industry in Canada, using petroleum-related (upstream plus downstream) revenues as the measurement base, declined by 6.7 percentage points to 67.2 per cent in 1981. Foreign control declined by 6.5 percentage points to 74.8 per cent. The declines in foreign ownership and control in 1981 were dramatic compared to those over the decade 1971-80.

FOREIGN OWNERSHIP AND CONTROL OF THE PETROLEUM INDUSTRY

	1971	1975	1977	1980	1981
			(%)		
PETROLEUM-RELATED REVENUES					
Foreign Ownership	79.5	76.1	73.7	73.9	67.2
Foreign Control	94.4	92.9	87.0	81.3	74.8

NOTE: See Table 7.4 (page 55) of report for details.

Takeover activity accounted for 4.1 and 5.7 percentage points respectively of the 6.7 and 6.5 percentage point decreases in foreign ownership and control.

The 1981 decreases were such that the relative geographic distribution of foreign ownership and control between the United States and other countries did not change markedly. About 61 per cent of the drop in foreign ownership was accounted for by increased Canadian public sector ownership, including federal and provincial Crown corporations, as well as public sector interest in private sector companies.

Petroleum Monitoring Agency
Agence de surveillance du secteur pétrolier

News Release

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580 Booth Street, Ottawa, Ontario K1A 0E4

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PETROLEUM MONITORING AGENCY SURVEY

Although revenues rose 9 per cent, after-tax profits for the Canadian petroleum industry fell to $1.5 billion in 1982, 52 per cent below the 1981 level, according to figures released today by the Petroleum Monitoring Agency (PMA). The PMA Survey is based on data received from more than 100 large companies representing 95 per cent of total industry revenues.

"A weak downstream performance accounted for more than one-half of the drop in profits and offset increased net income in the upstream segment," said PMA Chairman Ralph L. Gillen. "The 69 per cent drop in downstream profits was due to 1981 inventory gains not being repeated and decreased demand for petroleum products which reduced profit margins."

"Upstream profits – exploration, development, and production – rose 21 per cent to $2 billion," Mr. Gillen said, "with higher wellhead prices for crude oil and natural gas and lower provincial royalty rates the major contributing factors. And upstream cash flow increased 10 per cent over 1981 levels." Upstream profits surged in the second half of 1982 when they rose 49 per cent compared with a 12 per cent drop in the first half of the year.

Higher interest charges and write-downs of foreign assets caused profits of Canadian-controlled firms to drop from $1.2 billion in 1981 to a small loss in 1982, compared with a 19 per cent year-over-year profit decrease for foreign-controlled companies. Canadian-controlled companies involved in acquisitions recorded losses totalling about $600 million in 1982. In contrast, profits of non-acquiring firms dropped only slightly to $570 million – a stronger performance than the 19 per cent decline registered by foreign-controlled firms.

In submitting his report to Energy Minister Jean Chrétien, the PMA Chairman noted that profits of oil and gas companies on Canadian operations fell substantially less from 1981 levels than those of other non-financial industries in Canada. In relative terms, according to Statistics Canada data, petroleum industry net income in 1982 was 47 per cent of that of all other non-financial industries – 4 percentage points above the previous high recorded in 1980.

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Total capital expenditures by the petroleum industry declined marginally to $11.7 billion as higher downstream outlays in Canada were partially offset by decreased upstream spending and lower capital expenditures abroad.

Exploration expenditures in Canada fell $400 million to $3.5 billion with a drop in spending by foreign-controlled firms moderated by a rise in spending by Canadian-controlled companies. Exploration spending on the provincial lands fell 28 per cent, contrasted with a 40 per cent rise on the Canada Lands – the latter areas accounting for nearly one-half of total exploration spending. Federal petroleum incentive (PIP) grants financed $1 billion of the $1.6 billion of exploration outlays on the Canada Lands.

Total upstream revenues available for sharing among industry and governments rose 24 per cent to $18.6 billion with industry and federal and provincial governments each receiving more than in 1981. An increase in the federal government's share to more than 27 per cent – primarily due to higher revenues from energy taxes – was offset by a drop in the share of provincial governments which fell more than 5 percentage points to 32 per cent. The industry share rose slightly to 40 per cent.

Commenting on Canadian ownership and control of the petroleum industry, Mr. Gillen observed: "Both of these rose in 1982, but more slowly than in 1981. Based on petroleum-related revenues (upstream plus downstream), Canadian ownership rose to more than 34 per cent while control edged over 26 per cent. Canadian ownership and control based on upstream revenues increased in 1982 to reach 38 per cent and 37 per cent respectively, about one percentage point more in each case than a year ago."

\- 30 -

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BACKGROUNDER

1982 PETROLEUM MONITORING SURVEY

The 1982 Monitoring Survey is based on information provided by 102 petroleum companies reporting to the Petroleum Monitoring Agency (PMA). These companies accounted for 95 per cent of petroleum industry revenues on total operations in 1982.

NET INCOME

The after-tax profits (net income) of the petroleum industry declined by $1.6 billion in 1982, 52 per cent, to $1.5 billion. A weak downstream (refining, marketing, and petrochemicals) performance accounted for more than one-half of the $1.6 billion decrease in profits, offsetting gains in the upstream (exploration, development, and production) segment.

OVERVIEW OF TOTAL OPERATIONS

	1981	1982	Increase (Decrease)	
	$ billions		$ billions	(%)
TOTAL REVENUES	$50.6	$55.1	$4.5	9
TOTAL DEDUCTIONS	44.1	50.8	6.7	15
INCOME BEFORE TAXES	6.5	4.4	(2.1)	(33)
Less: Current Income Taxes	2.2	1.6	(0.6)	(26)
Deferred Taxes	1.2	1.3	0.1	3
NET INCOME	3.1	1.5	(1.6)	(52)

NOTE: See Table 1 (page 1-1) in report for details.

Higher interest charges and write-downs of foreign assets caused profits of Canadian-controlled companies to fall from $1.2 billion in 1981 to a small loss, as companies involved in takeovers recorded losses totalling $600 million in 1982. In

contrast, the net income of those Canadian firms not involved in acquisitions dropped only slightly to $570 million in 1982 – a stronger performance than the 19 per cent decline registered by foreign-controlled firms.

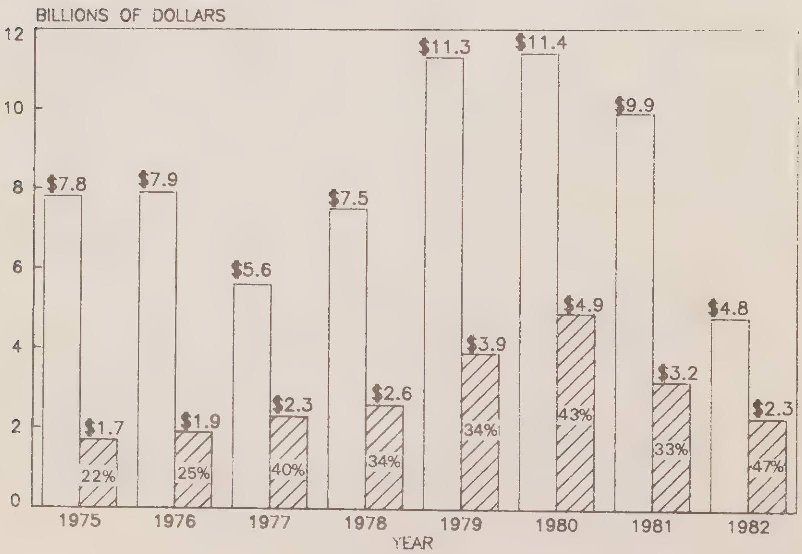
Net income from downstream operations declined 69 per cent to $0.4 billion in 1982. This weak performance was caused by the non-recurrence of inventory gains realized in 1981 and declining demand for petroleum products which increased competitive pressures and reduced profit margins.

Upstream net income increased 21 per cent to $2 billion in 1982. This segment rebounded strongly in the second half of 1982 when profits rose 49 per cent vs. the same 1981 period as compared with a 12 per cent decrease in the first half of 1982. Higher wellhead prices for oil and gas, reductions in taxes and royalty rates announced by the federal and provincial governments in mid-year, and lower interest rates all contributed to the second half improvement.

Statistics Canada data indicate that petroleum industry profits on Canadian operations fell less in 1982 than those of all other non-financial industries. In relative terms, petroleum industry net income was 47 per cent of that of all other non-financial industries – an increase of 14 percentage points compared with 1981.

Chart 6

COMPARISON OF NET INCOME PETROLEUM INDUSTRY VS. ALL OTHER CANADIAN INDUSTRIES



SOURCES OF FUNDS

Total funds available to the industry in 1982 dropped marginally to $23 billion, with $7 billion generated by operations and the balance from external sources.

Internal Sources

Internal cash flow from total operations fell 13 per cent to $7.1 billion in 1982 with all segments except upstream operations recording declines. Upstream cash flow increased 10 per cent in 1982, and this segment accounted for 81 per cent of total cash flow compared with 64 per cent in 1981. Higher deferred taxes moderated the decline in downstream internal cash flow (down 36 per cent) which fell less than downstream net income (off 69 per cent).

INTERNAL CASH FLOW BY SEGMENT

	1981	1982	Increase (Decrease)	
	$ billions		$ billions	(%)
Upstream	$5.2	$5.7	$0.5	10
Downstream	2.1	1.3	(0.8)	(36)
Other Canadian Activities	0.2	(0.4)	(0.6)	–
Foreign Operations	0.6	0.5	(0.1)	(25)
TOTAL ALL SEGMENTS	8.1	7.1	(1.0)	(13)

NOTE: See page 2-2 of report for further detail.

External Sources

Funds from external sources rose 6 per cent to nearly $16 billion with a decrease in new long-term debt more than offset by funds from drawing down working capital, gains in other sources (mostly pre-payments for natural gas

production), and increases in PIP payments and equity issues: the latter two increases were accounted for by Canadian-controlled companies.

CAPITAL EXPENDITURES

Capital expenditures by the petroleum industry fell 2 per cent to \$11.7 billion in 1982. Expenditures in Canada amounted to \$10.5 billion, up 4 per cent over the 1981 level, as lower upstream spending was more than offset by higher downstream and other expenditures. Capital outlays abroad fell by 34 per cent to \$1.2 billion.

CAPITAL EXPENDITURES – SUMMARY

	1981	1982	Increase (Decrease)	
	$ billions		$ billions	(%)
Exploration	$ 3.9	$ 3.5	$(0.4)	(7)
Other Upstream	3.0	2.9	(0.1)	(3)
TOTAL UPSTREAM	6.9	6.4	(0.5)	(7)
Other Canadian	3.2	4.1	0.9	28
TOTAL CANADIAN EXPENDITURES	10.1	10.5	0.4	4
Capital Expenditures Abroad	1.8	1.2	(0.6)	(34)
TOTAL CAPITAL EXPENDITURES	11.9	11.7	(0.2)	(2)

NOTE: See Table 7 (page 3-2) in report for details.

Exploration expenditures were down 9 per cent to \$3.5 billion, with a drop by the foreign-controlled sector moderated by a rise by Canadian-controlled companies. PIP payments by the federal and provincial governments financed one-third of the \$3.5 billion in 1982 exploration outlays, with Canadian-controlled companies receiving a much higher proportion of their exploration expenditures in the

form of grants (55 per cent) than did foreign-controlled firms (8 per cent). Exploration spending on provincial lands fell 29 per cent, contrasted with a 42 per cent rise on the Canada Lands – these latter outlays now representing nearly one-half of total exploration spending.

DIVIDENDS

Dividend payments for the industry declined 7 per cent to $1 billion, in contrast with the 52 per cent drop in net income. Dividends paid by foreign-controlled firms were steady at $0.7 billion despite a 19 per cent drop in profits. Canadian-controlled firms reported dividends of $0.3 billion, although registering a loss as a group, as some companies drew on retained earnings to make dividend payments.

OWNERSHIP AND CONTROL

The estimated level of Canadian ownership and control of the oil and gas industry in Canada, using petroleum-related (upstream plus downstream) revenues as the measurement base, increased by 1.4 and 0.3 percentage points to reach 34.2 and 26.2 per cent in 1982. The 1982 increases represent a slow-down from the 1981 changes in Canadian ownership (up 6.7 points) and control (up 7.2 points), primarily due to reduced acquisition activity.

Canadian ownership and control measured by upstream revenues each increased by about one percentage point to reach 38 per cent and 37 per cent in 1982.

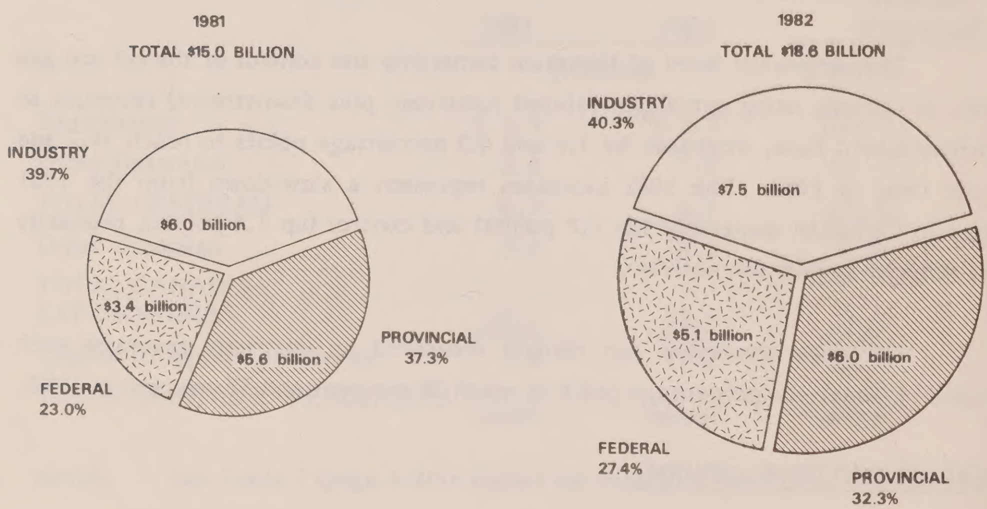
RESEARCH AND DEVELOPMENT

Research and Development (R&D) expenditures undertaken by PMA companies using their own equipment and laboratories totalled $330 million in 1982, a decrease of 5 per cent. R&D expenditures related to in-situ production techniques ($110 million), and oil and gas exploration and production ($97 million), were the two most significant components.

REVENUE SHARES

Upstream revenues available for sharing rose to $18.6 billion in 1982 with industry, the provinces and the federal government all registering increases. In relative terms, the federal share rose more than 4 percentage points to exceed 27 per cent, while the provincial share fell 5 points to about 32 per cent. The industry share increased slightly to over 40 per cent. The increased federal share was due to higher revenues from energy taxes Petroleum Gas Revenue Tax (PGRT), Incremental Oil Revenue Tax (IORT), and Natural Gas and Gas Liquids Tax (NGGLT), while the lower provincial share resulted from a reduction in average royalty rates. Greater revenues from upstream internal cash flow and higher petroleum incentive (PIP) grants were the major contributors to the increased industry share.

UPSTREAM REVENUE SHARES: INDUSTRY AND GOVERNMENTS



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